

***Implementation Outreach Workshop
November 18-19***

To:

| | | |
|------------------|--|----------------|
| Richard McPike | American Petroleum Institute | (214) 750-2987 |
| David Deal | American Petroleum Institute | (202) 682-8033 |
| John Clark | Council of Petroleum Accounting Societies | (405) 767-3686 |
| David Blackmon | Domestic Petroleum Council | (817) 347-2877 |
| Ben Dillon | Independent Petroleum Association of America | (202) 857-4799 |
| Barbara Widick | Independent Petroleum Association Of Mountain States | (303) 893-0709 |
| Patty Patten | Mid-Continent Oil & Gas Association | (918) 561-4364 |
| George Butler | Natural Gas Supply Association | (713) 754-3366 |
| Mary Stonecipher | Rocky Mountain Oil & Gas Association | (918) 581-4526 |
| Carla Wilson | Rocky Mountain Oil & Gas Association | (303) 860-0310 |
| Don Hoffman | Royalty Policy Committee | (406) 444-2900 |
| Wanda Fleming | State & Tribal Royalty Audit Committee | (406) 444-3696 |
| Paul Kruse | Western Governors' Association | (307) 777-5400 |
| Maurice Lierz | Western States Land Commissioners Association | (505) 827-4739 |

FROM:

Mike Miller
Chief, Program Services Office, Royalty Management Program
FAX No.: (303) 231-3362

COMMENTS:

Attached are the minutes from the November 18-19 Implementation Outreach Workshop on the *Federal Oil & Gas Royalty Simplification and Fairness Act (RSFA)*. These minutes cover discussions on Interest, OCSLA Section 10 Repeal, Payment Designations, and Takes vs. Entitlements.

Additional meetings currently scheduled include:

Self-Bonding Thursday, December 5, Building 85, Denver Federal Center
Contact Ken Vogel (303) 231-3749 or Jim Sheets (303) 231-3401 for information

Takes vs. Entitlements Friday, December 6, Building 810, Denver Federal Center
Contact Milt Dial (303) 231-3634 or Roman Geissel (303) 231-3226 for information

Contacts if you have questions on other specific RSFA issues covered by these minutes:

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|------------------|---|
| Interest | Milt Dial (303) 231-3634 or Dale Petersen (303) 231-3608 |
| OCSLA Section 10 | Milt Dial (303) 231-3634 or James Alexander (303) 231-3027 |
| Designations | Connie Bartram (303) 231-3410 or Larry Gratz (303) 231-3427 |

Please direct any other RSFA questions to Mike Miller, RMP, at (303) 231-3413.

MINUTES - November 18-19, 1996
Federal Oil & Gas Royalty Simplification and Fairness Act (RSFA)
Implementation Outreach Workshop
Interest, OCSLA Section 10 Repeal, Designations/Liability, and Takes vs. Entitlements

State and industry representatives met with MMS to discuss various RSFA topics. Below is a summary of agreements, open issues, and MMS' planned actions.

INTEREST

Agreements Reached:

The list of RSFA interest assumptions discussed at the 10/21/96 meeting was discussed again 11/18/96 and agreement was reached on the following:

Interest must be reported on the same Form MMS-2014, Report of Sales and Royalty Remittance, that the adjustment is reported.

If the lessee does not report interest on their 2014, MMS will assume the lessee is claiming the "Hardship" interest reporting waiver.

Interest will be calculated and reported by lease and sales month/year.

Interest will be paid on royalty overpayments made on or after February 13, 1997, for production months September 1996 and after.

Interest will be calculated **from** the due date of the sales month.

Interest will be calculated **to** the receipt date of the payment.

Interest on over and under estimates will be calculated consistent with RSFA and the estimate will only extend the reporting date for first time reporting.

Issues as they arise, such as content of the interest statement document, will be discussed with industry and States.

MMS actions to complete:

MMS will draft proposed regulations by 12/31/96.

MMS will send draft instructions to State and industry representatives in January, detailing agreed upon interest computation methods.

MMS will use Dear Payor Letters, the Payor Handbook, and regulations to establish procedures for claiming interest on overpayments, paying interest on underpayments, and reporting interest on the MMS2014.

MMS is researching the IRS 1099 reporting requirements.

OCSLA SECTION 10 REPEAL

Agreements reached:

A teleconference was held 11/18 between the meeting participants and the Office of the Solicitor where the following was agreed upon.

Effective date of repeal is August 13, 1996.

- Overpayments received by MMS after August 12, 1996, are not subject to Section 10 of OCSLA.
- Overpayments received by MMS prior to August 13, 1996 are subject to OCSLA Section 10.
- Overpayments received by MMS after August 12, 1996 for production prior to September 1, 1996 can be recouped through the 2014 reporting process. However, due to a lack of statutory authority, either through OCSLA or RSFA, the overpayment cannot be refunded (cash payment drawn on the Treasury)

MMS Actions to Complete:

- MMS will send a “Dear Payor” letter by the end of November.
- MMS will revise chapter 4 of the payor handbook by early 1997.
- Publish in the Federal Register changes to 30 CFR Part 230 to reflect RSFA requirements regarding repeal of OCSLA Section 10.

DESIGNATIONS/LIABILITY

Agreements Reached:

--How to Create an Initial Designated Payor Data Base Linked to Operating Rights Owners--
Where and What Information to Collect

1. Send a “Dear Payor” letter to each payor currently paying on active Federal oil and gas leases. Request that payors provide names and addresses of all operating rights owners for whom they are paying on behalf of. Enclosed with the “Dear Payor” letter will be a listing from the MMS/AFS of all Federal oil and gas leases/revenue sources/product codes established with MMS as of September 1, 1996.

2. In addition to identifying the lessees (the operating rights owner) whom the payor is paying for, the “Dear Payor” letter also requests each payor to indicate whether they are paying as an operating rights owner, as only a designated payor, or as both for each lease/revenue source/product code. The following data elements will be requested:

- a. For each operating right owner: Name, Address, and Taxpayer Identification

Number (either the Employer Identification Number or Social Security Number);

b. For each lease/revenue source/product code, the start and end dates as designations change since September 1, 1996 forward;

c. For a payor its TIN - either Employee Identification Number (EIN) or Social Security Number (SSN)

--Step to Obtain Written Payor Designations Linking Operating Rights Owners and Record Title Owners With the Payor

1. As MMS receives the requested standardized information from payors, MMS will send each identified operating rights owner a letter and a listing of all the lease/revenue source/product codes identified

2. The operating rights owners will be asked to certify the listing. The certification will state that they have designated that payor to pay on their behalf; then the operating rights owner must return the certification to MMS.

Open Issues:

- Can an operating rights owner waive the requirement and not receive the notice that a demand for payment has been sent to the payor paying on their behalf?
- If a payor does not tell MMS they are a designee, can MMS assume they are an operating rights owner and issue a subpoena to find out who the operating rights owners are?
- Maintenance of the Designated Payor/Linked to Operating Rights Owner Data Base
Which way should MMS and the industry maintain a designated payor/linked to operating rights owner data base? For example:
--Full scale where changes are sought constantly--where MMS will notice each operating rights owner every time MMS makes a demand for payment (about 500 bills/invoices monthly with multiple leases)

Identify the Pros v. Cons

--Exception basis scale where changes are sought only as needed--where MMS will notice the operating rights owners only after the designated payor has not paid after the second debt collection follow-up letter (about 10 bills/invoices per month with multiple leases)

Identify the Pros v. Cons

--If MMS and industry were to maintain a designated payor linked to the operating rights owner data base, how should this be done?

--Industry caucus suggestion: MMS repeat sending the "Dear Payor" letter at regular intervals if using information on an exception basis (every 12 to 18 months).

--This approach presents risks-- it will not satisfy the need for a contiguous data base and

leave gaps in time as to ownership (MMS needs to identify operating rights owners for specific date-sensitive periods of time). Need to Identify Other Pros and Cons of Exception basis and this specific method

--MMS suggestion: MMS wants the changes between designated payors and who designated them to be sent in from payors as changes occur, with no time gaps.

--MMS will design a form for the changes to be sent in, by:
-- amending the Payor Information Form (PIF) or
-- creating a separate form for use by lessees and payors

--Who should submit the information for changes? The RSFA states that the lessees (operating rights owners) submit the information; need to discuss whether:
-- the lessee submit information, or
-- the designated payor submit information

Industry representatives did not reach agreement among themselves on this last matter.

MMS Actions to Complete:

MMS will be issuing instructions informing current mineral lease royalty and rental payors what data elements they must provide when identifying the various lease owners who designated them to pay on their behalf. Companies can contact MMS at (303) 2313427 immediately to obtain the record layout for this submission, or wait to receive a "dear payor instruction" letter. Each dear payor instruction letter will include a computer listing of all active leases for that payor. After many payors submit their responses, from that data we will contact each identified lease owner to obtain their certification of payor designation(s). MMS and industry agreed that another meeting is needed to discuss maintenance options/processes/forms, all the related issues, MMS asset/risk management, and payment liability. This meeting will be scheduled in January as company representatives and MMS observe and analyze how the initial process is working.

TAKES vs. ENTITLEMENTS

Agreements Reached

Concurrence on two of the key issues that remained open from the October 31, 1996, meeting was reached in a very brief discussion on 11/18/96.

1)For 100 percent Federal agreements, any party taking production was responsible for reporting and payment of royalties on the volume taken.

2)The base definition of a marginal property entitled to consideration for an exception from the entitlements reporting requirement would be at the unit participating area or communitization agreement level.

MMS Actions and Followup Meeting:

MMS will issue instructions informing current royalty payors about the reporting requirements for leases and agreements under the RSFA via a Dear Payor letter

MMS will review the proposal to allow reporters to report royalties on a single lease and revenue source combination for 100 percent Federal agreements

MMS will develop a list of potential marginal properties for discussion with the States

MMS, Industry and States agreed to another meeting. This meeting is scheduled for December 6 from 9:00 a.m. To 1:00 p.m. in Building 810, Denver Federal Center to finalize many of these open items.